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ABSTRACT

The U.S. Congress asked the Government Accounting Office (GAO) to determine the following: (1) to what extent states were spending their Workforce Investment Act (WIA) funds and whether the Department of Labor's (Labor's) data accurately reflected available funds; (2) what Labor did to assess how states were managing their WIA spending; and (3) what affected states' WIA expenditure rates. Nationwide spending data from 2002 was compared with financial reports collected from selected states. These were among the findings: (1) states spent WIA funds faster than required by law; (2) Labor's estimate of expenditure rates suggested a slower pace for spending; (3) states did not have a clear definition of obligations and what to report to Labor; and (4) without consistent information from states on funds that were committed, Labor relied on expenditures and overestimated the funds states had available to spend. To enhance Labor's ability to manage its WIA grants and to improve the accuracy and consistency of financial reporting, several recommendations were made, including clarification to states of the definition of unliquidated obligations, requiring states to collect and report on obligations at the point of service delivery, and enhanced communication of spending benchmarks. (Thirteen tables/figures are included. Appended are a sample financial status report form, state expenditure rates, and comments from the Department of Labor). (AJ)

November 2002

WORKFORCE INVESTMENT ACT

States' Spending Is on Track, but Better Guidance Would Improve Financial Reporting

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Highlights

Highlights of GAO-03-239, a report to Congressional Requesters

Why GAO Did This Study

The administration has twice proposed reducing the Workforce Investment Act's (WIA) budget, citing large amounts of states' unspent funds carried over from the prior year. However, in light of current economic conditions, state and local workforce officials have expressed a need for more funds, not less. GAO was asked to assess whether the Department of Labor's spending information is a true reflection of states' available funds. GAO examined the spending rate for states, what Labor does to determine how states are managing their spending, and what factors affect states' WIA expenditure rates.

What GAO Recommends

GAO is recommending that Labor collaborate with states to clarify its definition of obligations and include this information in determining states' available funds. Labor should share spending benchmarks and promising practices to help states and localities better manage their spending.

In comments on a draft of GAO's report, Labor generally agreed with our recommendations regarding better definitions and guidance, and sharing promising practices. However, Labor disagreed with GAO's findings and recommendations relating to the importance of considering obligations in addition to expenditures.

www.gao.gov/cgi-bin/getrpt?GAO-03-239

To view the full report, including the scope and methodology, click on the link above. For more information, contact Sigurd Nilsen at (202) 512-7215.

November 2002

WORKFORCE INVESTMENT ACT

States' Spending Is on Track, but Better Guidance Would Improve Financial Reporting

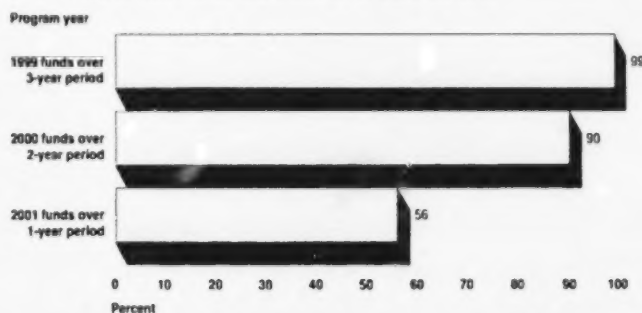
What GAO Found

States are spending their WIA funds much faster than required under the law, according to GAO's analysis of Labor's data. By the end of program year 2001, states had spent virtually all funds allocated in 1999 as well as 90 percent of 2000 funds and 56 percent of 2001 funds. By contrast, Labor's estimate suggests a slower pace of spending because it is based on all available funds, including those only recently distributed. Even though 44 percent of program year 2001 funds are being carried over into program year 2002, many of these funds may have already been committed at the point of service delivery. Furthermore, because of reporting inconsistencies, Labor's data do not accurately reflect funds that have been obligated—long-term commitments made by states and local areas on behalf of WIA customers. For a truer picture of available funding, both expenditures and obligations must be considered. But, because Labor lacks consistent data on obligations, it focuses only on expenditures to gauge budgetary need and overestimates funds states have available to spend.

Labor compares state expenditures against its benchmarks to determine how states manage their spending, to target guidance and assistance efforts, and to formulate next year's budget request. But Labor does not often communicate these benchmarks to states. Despite active monitoring and additional guidance, state and local officials remain confused by some of Labor's financial reporting requirements. They seek more definitive guidance and the opportunity to share promising strategies to help them better manage spending.

Financial reporting delays result from lengthy spending approval and contract procurement procedures—lasting as long as 8 months—and untimely service provider billing. Also, yearly funding fluctuations affect states' and local areas' willingness to commit resources in the long term and inhibit workforce system planning. Some states and localities have implemented strategies to overcome these factors and better manage their WIA spending.

Percentage of WIA Funds Expended as of June 30, 2002



Source: GAO's analysis of Labor's financial data files for program years 1999, 2000, 2001.

United States General Accounting Office

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Abbreviations

JTPA	Job Training Partnership Act
TANF	Temporary Assistance for Needy Families
WIA	Workforce Investment Act of 1998



United States General Accounting Office
Washington, DC 20548

November 22, 2002

The Honorable Edward M. Kennedy
Chairman, Committee on Health, Education,
Labor and Pensions
United States Senate

The Honorable Howard P. "Buck" McKeon
Chairman, Subcommittee on 21st Century Competitiveness
Committee on Education and the Workforce
House of Representatives

With the enactment of the Workforce Investment Act (WIA) of 1998, the Congress repealed the Job Training Partnership Act (JTPA) and overhauled federal employment and training programs. WIA created a more comprehensive workforce investment system and streamlined services for at least 17 federally funded employment and training programs into a single service delivery structure known as the one-stop system. In fiscal year 2002, WIA's three funding streams—adults, dislocated workers, and youth—were appropriated about \$3.9 billion. In July 2002, most states had just completed their second full year of implementation. Under WIA, the federal government allocates funds to states each year, and states have three years to spend those funds—that is, funds received in 1999 may be spent through 2001; similarly, those received in 2000 may be spent through 2002. Twice, the administration has proposed reducing the program's budget, recommending a \$359 million reduction for fiscal year 2002 and another \$343 million in 2003. In both cases, the administration has cited states' large amounts of unexpended funds carried over from the prior year, saying that states could readily absorb funding cuts without affecting service levels. Labor estimates that nearly 40 percent of states' WIA funds remain available to spend at the end of program year 2001. However, state and local workforce officials challenge this position, and in light of current economic conditions, have expressed a need for more program funding, not less.

To more fully assess whether the Department of Labor's spending information is a true reflection of states' available funds, you asked us to determine: (1) to what extent states are spending their WIA funds and whether Labor's data accurately reflect states' available funds, (2) what Labor does to assess how states are managing their WIA spending, and (3) what affects states' WIA expenditure rates.

To answer these questions, we analyzed the most recent available nationwide¹ spending data from Labor—as of June 30, 2002—and compared them with financial reports collected from selected states. In analyzing Labor's reports, we disaggregated data by program year and analyzed them with and without unexpended funds carried over from prior years. To gain a better understanding of WIA spending issues, we met with workforce officials in two states—Colorado and Washington—and conducted in-depth structured telephone interviews with state officials in 7 others: California, Florida, Illinois, New York, Ohio, Texas, and Vermont. We also contacted officials representing local areas in 7 of the states. In selecting the states, we focused primarily on those with the larger WIA allocations. Collectively, the 9 states we selected accounted for about half of the total WIA allocation in program years 2000 and 2001. Besides being geographically dispersed, the states we selected included those with single and multiple local workforce areas and represented a range of expenditure rates and experience levels in implementing WIA. In selecting local areas, we chose from among the largest ones. We also interviewed officials at Labor headquarters and five of its regional offices, as well as four national associations. We conducted our work from April to October 2002 in accordance with generally accepted government auditing standards.

Results in Brief

States are spending WIA funds much faster than required under the law, according to our analysis of Labor's data. As of June 30, 2002, states had spent essentially all of their program year 1999 funds within the 3 years allowed. In addition, they had spent 90 percent of their program year 2000 funds within 2 years and 56 percent of their program year 2001 funds in 1 year—in fact, 16 states spent 70 percent or more of their program year 2001 funds in the first year. By contrast, Labor's estimate of expenditure rates suggests a slower pace for spending because the estimate is based on all funds states currently have available—from older funds carried in from prior program years to those only recently distributed, assessed in the aggregate, not year-by-year. Moreover, the newest funds, which states have 2 more years to spend, comprised two-thirds of all funds states had available for program year 2001. Further, even though 44 percent of program year 2001 funds are being carried over into program year 2002, many of these funds may already be committed—or obligated. However, states do not have a clear, uniform definition of obligations and what they

¹Our nationwide review focused on the fifty states, District of Columbia, and Puerto Rico. Hereafter, we refer to them collectively as states.

report to Labor on obligations differs—some report obligations made only by the state, others report those made at the local level. Of the 9 states we reviewed, all collected information on obligations made at the local level but only 4 reported them to Labor. When local obligations are included, the amount of funds that could be considered available decreases markedly. For example, the percentage of California's program year 2001 funds that are available decreased from 40 percent to 7 percent. Without consistent information from states on funds that have been committed, Labor relies on expenditures and overestimates the funds states have available to spend.

Labor collects quarterly financial reports from each state and compares state spending against internally established benchmarks to determine how states manage their spending. Labor uses the results of the comparison to target guidance and technical assistance and to formulate the following year's budget request. For example in program year 2001, Labor expected states to spend 69 percent of all their available WIA funds. While half the states met or exceeded this expenditure rate, Labor's benchmarks were often not communicated to the states. Despite additional financial reporting guidance provided by Labor, some state and local officials remained confused by some of Labor's requirements because the guidance and assistance on obligations had not been clear and definitive. State and local officials expressed a need for clearer guidance and the opportunity to share promising practices for effectively managing spending.

Several factors affect states' WIA expenditure rates. State and local officials told us that cumbersome processes to get approval to spend funds, lengthy contract procurement procedures, and untimely billing by key service providers, especially community colleges, all delayed expenditures, sometimes by as much as 3 to 8 months. Also, funds held at the state level for statewide and other activities were spent more slowly—at less than two-thirds the rate of funds spent by local areas—causing overall expenditures to initially appear lower. Annual fluctuations in funding levels also affected many states' and local areas' willingness to commit funds for the long term and inhibited their ability to plan comprehensive workforce investment systems. To overcome some of these factors, some states and local areas are implementing such strategies as frequently monitoring and recapturing unspent and uncommitted funds from one local area and redistributing them to another, coordinating the procurement process before the receipt of funds so that contracts are in place by the time funds become available, and requiring expedited billing as part of contract specifications.

To improve the accuracy and consistency of financial reporting, we are recommending that Labor clarify its guidance on reporting obligations to address concerns identified by state and local officials. In addition, we are recommending that Labor collect information on funds committed at the point of service delivery and include such information in determining states' available funds. We are also recommending that Labor share its spending benchmarks with states along with strategies for managing spending effectively. In its comments, Labor generally agreed with our findings and recommendations related to providing clearer definitions, guidance, and technical assistance to states to help them manage their WIA spending. However, Labor disagreed with our findings and recommendations related to the importance of considering obligations in addition to expenditures.

Background

The Department of Labor required states to implement WIA's major provisions by July 1, 2000, although six states began implementation a year earlier in July 1999. The act authorizes three separate funding streams for adults, dislocated workers, and youth. WIA's appropriation for fiscal year 2002 was \$950 million for adult, \$1.1 billion for youth, and \$1.5 billion for dislocated worker programs, for a total of \$3.9 billion (see table 1).

Table 1: Funds Appropriated for WIA in Fiscal Years 2000-2003

Category	Fiscal year 2000	Fiscal year 2001	Fiscal year 2002	Fiscal year 2003 (request)
Adult	\$950 million	\$950 million	\$950 million	\$900 million
Youth	1.3 billion	1.4 billion	1.4 billion	1.0 billion
Dislocated worker	1.6 billion	1.4 billion	1.5 billion*	1.4 billion
Total	\$3.9 billion	\$3.8 billion	\$3.9 billion	\$3.3 billion

*This amount includes a rescission of \$177.5 million.

Source: GAO's analysis of agency budget documents.

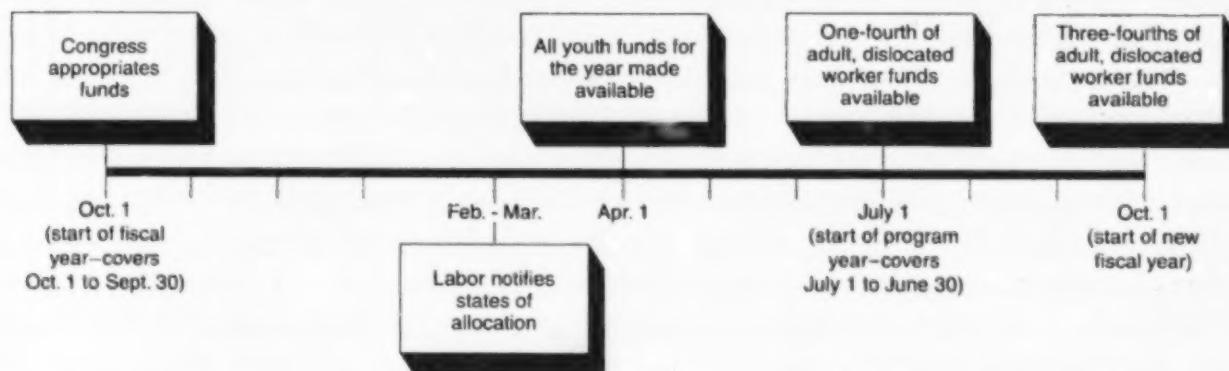
WIA encourages collaboration and partnerships in making a wide array of services universally accessible to these three populations and allows states broad discretion in designing their workforce investment systems. WIA requires most federally funded employment and training services to be delivered through a one-stop system overseen by newly created state and local workforce investment boards, although the services themselves may be provided by partner agencies and locally contracted service

providers. In fact, WIA encourages client referrals to programs offered by one-stop partners.

WIA's Funding Cycle Is Complex

Once Congress appropriates WIA funds, the amount of money that flows to states and localities depends on a specific formula that takes into account unemployment. Thus, any changes in the annual appropriation or elements of the allocation formula will result in year-to-year funding fluctuations. Once the Congress appropriates funds for a given fiscal year, Labor notifies states of their annual allocation—usually in the February to March timeframe. The funds are made available to states and localities at three separate times during the year, depending on the program (see fig. 1). For youth services, all funds for the year are made available on April 1, 3 months before the beginning of the program year on July 1. This once-a-year youth allocation is designed to help states and local areas gear up for summer youth activities. The adult and dislocated worker funding allocations are distributed twice a year from two different years' appropriations—on July 1 (1/4 of the allotment) and on October 1 (3/4 of the allotment)—with the October allocation funded from a new fiscal year's appropriation. States and localities are required to manage their WIA programs, including spending, on a program-year basis, regardless of when funds are made available. In addition, WIA allows states 3 program years to spend their funds while local areas have 2 program years.

Figure 1: WIA's Annual Funding Cycle



Source: GAO's analysis of federal budget process, WIA regulations and Department of Labor, Training and Employment Guidance Letter 16-99 (Washington, D.C.: 2000).

Once WIA funds are made available, they flow from Labor to states, states to local areas, and local areas to service providers. For dislocated worker funds, the Secretary of Labor retains 20 percent of the funds in a national reserve account to be used for emergency grants, demonstrations, and technical assistance and allocates the remaining funds to the states according to a specified formula. Once states receive their allocation, the governor can reserve up to 25 percent of dislocated worker funds for rapid response activities intended to help workers faced with plant closures and layoffs to quickly transition to new employment. In addition to funds set aside for rapid response, WIA allows states to set aside up to 15 percent of the dislocated worker allotment and permits them to combine the dislocated worker set-aside with similar set-asides from their adult and youth allotments. States use the set-asides to support a variety of statewide activities such as helping establish one-stop centers, providing incentive grants to local areas, operating management information systems, and disseminating lists of organizations that can provide training. After funds are set aside for rapid response and statewide activities, the remainder—at least 60 percent for dislocated workers and 85 percent for adult and youth—is then allocated to local workforce areas, also according to a specified formula. In addition, local areas may reserve up to 10 percent from each of the three funding streams for local administrative activities (see table 2).

Table 2: Allocation of WIA Funds to States and Local Areas

Distributed to states	Adult	Youth	Dislocated worker ^a
Reserved by governor for rapid response activities	N A ^b	N A ^b	25%
Reserved by governor for statewide activities	15%	15%	15%
Allocated to local areas ^c	85%	85%	60%

^aThe Secretary of Labor reserves 20 percent of dislocated worker funds for national emergency grants, demonstrations, and technical assistance before distributing the remaining 80 percent to states for their use.

^bRapid response funds are not applicable to the adult and youth programs.

^cA maximum of 10 percent of local area funds may be used for local administration.

Source: GAO's analysis of the Workforce Investment Act.

States Report to Labor on Six Funding Categories

Labor collects quarterly financial status reports from states, detailing expenditures separately for the six funding categories under WIA—two categories at the state level (governor's set-aside and rapid response) and four at the local level (adult, dislocated worker, youth, and local administration). Appendix I depicts a sample form that states complete and submit to Labor. Because adult and dislocated worker funds for each program year are provided from two separate appropriations, Labor requires states to track financial information separately by the year in which funds are appropriated. As a result, states submit a total of 11 reports each quarter for activities funded by the current program year's allocation, as shown in table 3. In addition, WIA gives states 3 years within which to spend their grant; consequently, states may be tracking activities that are funded by 3 different program years, thus submitting up to 33 reports each quarter (11 reports multiplied by the 3 program years in which funds are available).

Table 3: WIA's Quarterly Financial Reporting Requirements

	Number of reports
Statewide category	
Governor's set-aside (15 percent)	2
Rapid response	2
Local category	
Adult	2
Dislocated workers	2
Youth	1*
Administration (10 percent cap)	2
Total	11

*All youth funds are allocated at a single point during the program year; therefore, only one report is required to be submitted.

Source: GAO's analysis of Labor's Training and Employment Guidance Letter 16-99, (Washington, D.C.: 2000).

In completing their financial status reports, states are required to follow Labor's guidance that identifies and defines the data elements to be reported. Labor collects "total federal obligations"—which it defines as the sum of expenditures, accruals, and unliquidated obligations—for determining how much states have already spent and how much is still available for spending. Table 4 shows the definitions of each of these terms. In addition, WIA regulations require expenditures to be reported on an accrual basis. This means states should report all cash outlays and all accruals as expenditures on their reports. As of July 2002, all states we contacted told us that they were reporting expenditures on an accrual basis.

Table 4: Elements of Labor's Definition of Total Federal Obligations

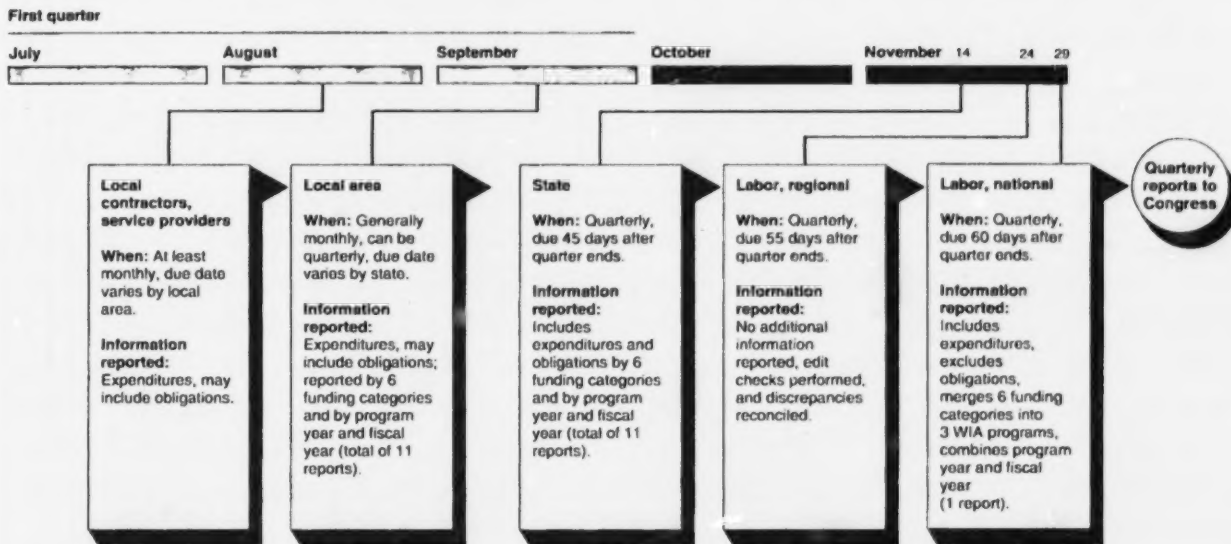
Element	Definition
Expenditures	Actual cash disbursements or outlays.
Accruals	Amounts owed for goods and services that have been received but for which cash has not yet been disbursed. <i>For example, an accrual would occur if a job seeker completed a training class, but the training provider had not yet been paid.</i>
Unliquidated obligations*	Obligations incurred, but for which an outlay has not yet been recorded; should include unliquidated obligations to subgrantees and contractors. <i>This amount is different from accruals in that services have not been provided and costs have not been incurred. For example, an unliquidated obligation would be incurred when the state or local area enters into a commitment or contract with a service provider for training, but training has not yet been completed or the service provider paid.</i>

*Hereafter, we refer to unliquidated obligations as obligations.

Source: Labor's Training and Employment Guidance Letter 16-99, (Washington, D.C.: 2000). Text in italics added by GAO.

Financial reporting begins at the local service provider level and progresses through the local, state, and national levels. Figure 2 shows how WIA financial reports flow from one level to the next and the data elements that are reported. After reconciling any discrepancies, states aggregate the local reports and are required to submit a financial status report to their regional Labor office 45 days after the quarter's end, according to Labor officials. Ten days later, after performing edit checks, regional officials told us that they certify and forward states' reports to Labor's national headquarters. The national office then merges information for the six funding categories into the three funding streams—adults, dislocated workers, and youth—and combines the program and fiscal year data into a single program year. Within 5 days of receiving reports from its regional offices, Labor is required to present the Congress with a single report 60 days after the end of the quarter.

Figure 2: WIA Quarterly Financial Reporting Process



Source: GAO's analysis of Labor's Training and Employment Guidance Letter 16-99, (Washington, D.C.: 2000), H.R. Conf. Rep. No. 107-148, at 68 (2001), and interviews with officials from Labor, states, and local areas.

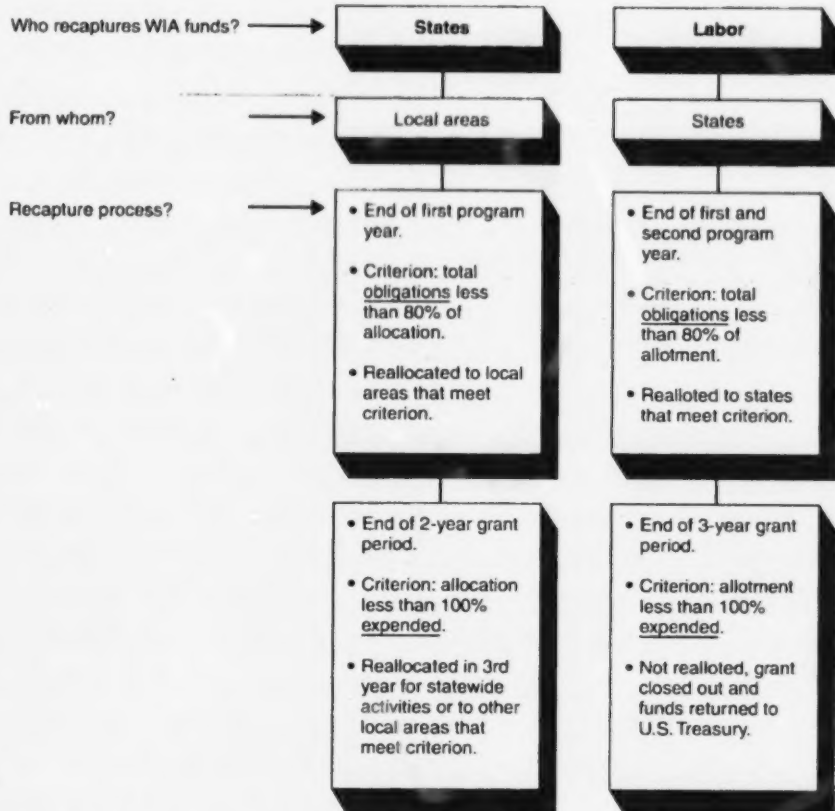
WIA Provides for Recapturing Unspent Funds

Labor uses states' financial reports to determine whether there are any unspent funds that may need to be redistributed among states. Local areas have 2 years within which to spend their annual allocations while states have 3 program years. Thus, program year 2000 funds must be spent by the end of program year 2001 for localities and by the end of program year 2002 for states. If funds are not spent, WIA directs both states and Labor to recapture and, if appropriate, redistribute unspent funds according to specific criteria (see fig. 3). The recapture processes are similar at both the state and federal level. States have a two-tiered process by which they recapture available funds. First, at the end of the initial program year, states may reclaim funding from local areas with total obligations less than 80 percent of their annual allocation and redistribute these recaptured funds to those local areas that have met the criterion for total obligations. Second, at the close of local areas' 2-year grant period, states may recapture any unexpended local funds and may reallocate the funds to

other local areas that have fully expended their allocation or to statewide activities, but only in the third year the grant is available.

Like local areas, states are also subject to having their funds recaptured. At the federal level, Labor may recapture funds from states with total obligations less than 80 percent of their annual allotment at the end of the first program year. Labor applies the same recapture process to the end of the second program year. At both intervals, Labor may redistribute these funds to other states that have met the requisite total obligation rate. By the end of the 3-year grant period, Labor may recapture any state funds that have not been fully expended. Because states' WIA grants expire after 3 years, funds recaptured by Labor at the end of the third year may not be redistributed to other states. Rather, Labor must return the funds to the U.S. Treasury.

Figure 3: WIA Fund Recapture Process



Source: GAO's analysis of WIA legislation and interviews with Labor officials.

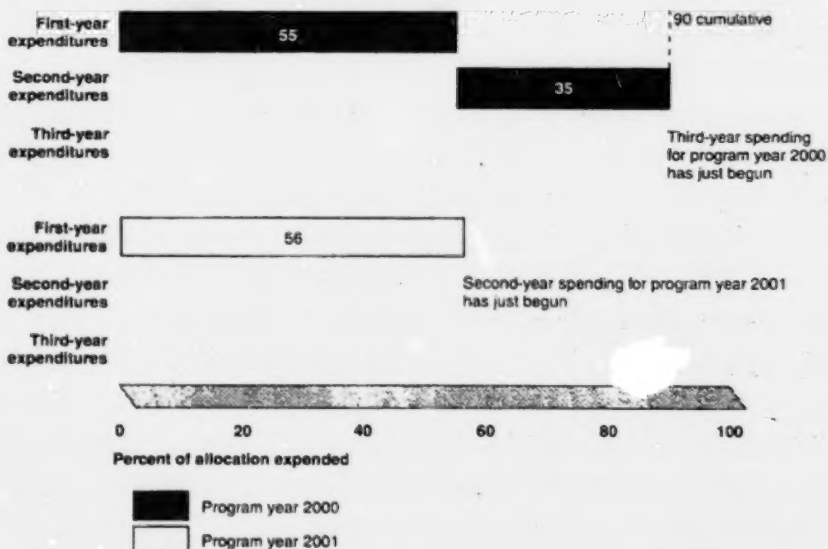
States Have Spent Most of Their WIA Funds, Labor's Estimate Overstates Funds Available to Spend

Our analysis of Labor's data shows that states are spending their WIA funds within the authorized 3-year timeframe—virtually all funds allocated for program year 1999 have been spent within the requisite 3 years and 90 percent of program year 2000 funds have been spent within 2 years. In addition, states have spent just over half of their program year 2001 allocation within the first year funds were available. By contrast, Labor's estimate of expenditure rates suggests that states are not spending their funds as quickly because the estimate is based on all funds states currently have available—from older funds carried in from prior program years to those only recently distributed. The newest funds, which states have 2 more years to spend, comprised two-thirds of all funds states had available for program year 2001. Moreover, many of the remaining funds carried over may have already been obligated. However, states do not use the same definition for obligations and what they report to Labor on obligations differs. Lacking consistent information on how much states and local areas have committed to spend, Labor relies on expenditure data and overestimates the funds states have available to spend.

Labor's Expenditure Data Show That WIA Funds Are Being Spent within Authorized Timeframes

Our analysis of Labor's expenditure data shows that states are spending their WIA funds within the allowed 3-year period. Nationwide, Labor's data show that states expended essentially all of their program year 1999 funds within the authorized 3-year period that ended with program year 2001. In addition, states have expended 90 percent of program year 2000 funds within the first two years funds were available—55 percent in the first year and another 35 percent in the second year. States have one more year to spend the remaining 10 percent of their program year 2000 funds. In addition, states had expended 56 percent of program year 2001 funds, with 2 years still remaining (see fig. 4).

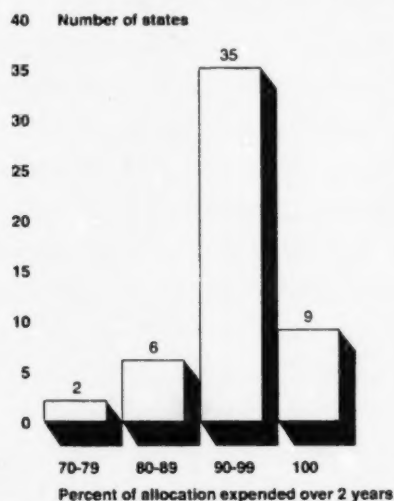
Figure 4: Expenditure Rates by Year Spent



Source: GAO's analysis of Labor's financial data files for program years 2000 and 2001.

While nationwide data show that funds are being spent within the required time period, state-by-state expenditure rates vary widely. For example, Vermont spent 92 percent of its program year 2000 allocation in the first year and 8 percent in the next, while Kentucky spent 29 percent in the first year and 63 percent in the next. When program year 2000 expenditure rates were combined for the first and second years that funds were available, all states had spent over 70 percent. Forty-four states had spent 90 percent or more of their program year 2000 funds, with 9 of those 44 states—Delaware, Idaho, Maine, Michigan, Montana, North Dakota, Rhode Island, Utah, and Vermont—achieving a 100-percent expenditure rate. (See fig. 5.)

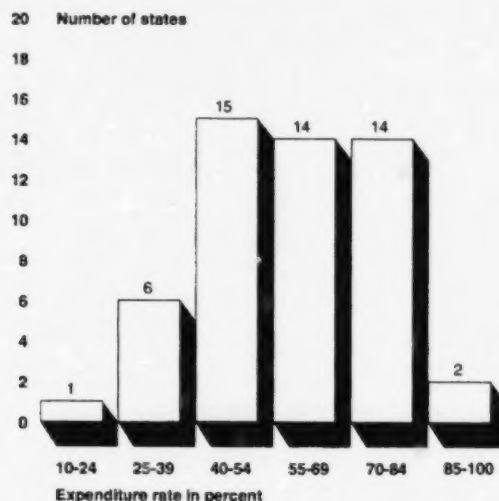
Figure 5: Range of States' Cumulative Expenditure Rates for First 2 Years That Program Year 2000 Funds Were Available



Source: GAO's analysis of Labor's financial data files for program year 2000.

Expenditure rates for first year spending of program year 2001 funds were similar to those of program year 2000, and state-to-state spending rates also varied widely, as shown in figure 6, ranging from 19 percent for New Mexico to 92 percent for Vermont. For program year 2001, the majority of states spent at least 55 percent of their funds and 16 states spent at least 70 percent. (See app. II for state-by-state expenditure rates listed for program years 2000 and 2001.)

Figure 6: Range of States' Expenditure Rates for First Year That Program Year 2001 Funds Were Available



Source: GAO's analysis of Labor's financial data files for program year 2001.

Expenditure rates increased for many states from program year 2000 to program year 2001. Thirty-one states spent funds at the same or faster pace in program year 2001 than they did during the same period in the prior year. However, for 21 states, spending occurred at a slower pace in 2001 compared with 2000. Nevertheless, 9 of the 21 states still spent at or above the nationwide rate of 56 percent in program year 2001.

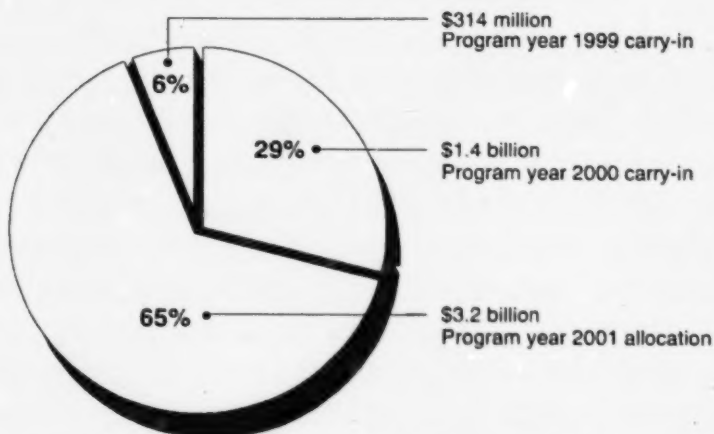
Labor's Calculation of Expenditure Rates Aggregates Data Over 3 Years

In contrast to our expenditure rate estimate, Labor's estimated expenditure rate of 65 percent at the end of program year 2001 aggregates data over 3 years and considers all funds states have available. Labor based its calculation on older unexpended funds carried in from prior years as well as the newest funds represented by the program year 2001 allocation, even though that allocation made up the largest share of all available funds. For example, of the total \$5 billion² available at the beginning of program year 2001, about two-thirds (65 percent) represented

²This includes a rescission of \$177.5 million from the dislocated worker program for program year 2001.

the program year 2001 allocation, and about another one-third represented amounts carried in from program years 2000 and 1999 (29 percent and 6 percent, respectively) as shown in figure 7. By basing its calculation of an expenditure rate—65 percent at the end of program year 2001—on the sum of all available funds, Labor did not take into account the 2 years that remain for states to spend the majority of their funds.

Figure 7: Breakout of \$5 Billion Available for Program Year 2001



Source: GAO's analysis of Labor's financial data files for program year 2001.

Labor's Information on States' WIA Spending Is Not Accurate Due to Reporting Inconsistencies

Differences in how states report expenditures result in data inaccuracies and reporting inconsistencies. WIA regulations require states to include accruals—or amounts owed for goods and services received that have not yet been paid—when reporting expenditures, but a few states reported only cash outlays in program year 2001. As a result, reported expenditures may have been understated. Some states and local areas may still be using a cash-based accounting system, usually tied to the state's or local area's existing accounting system and often used to report expenditures for other programs, such as welfare. State and local workforce officials we spoke with in areas that are reporting cash outlays told us they are modifying their accounting systems and will soon begin reporting accruals. In fact, as of program year 2002, all states we spoke with told us they are beginning to collect and report expenditures on an accrual basis as required under WIA regulations. Excluding accruals may understate

expenditures primarily in the short term because invoices for goods and services received in one month are often converted into cash outlays in the next month. However, if this conversion takes a long time to occur and if expenditures are uneven from month-to-month and year-to-year, the effect of accruals for a year may be longer term and expenditures for a given year may be understated. For example, a jobseeker may have completed a training class in June of one program year, but the school does not submit an invoice to the local area until September of the next program year. If the local area captures the cost of training as an expenditure only after paying the invoice, it will wait until the new program year to report it and will understate its prior program year expenditures. Eventually, accruals may catch up with expenditures over the life of the grant—2 years for local areas and 3 years for states.

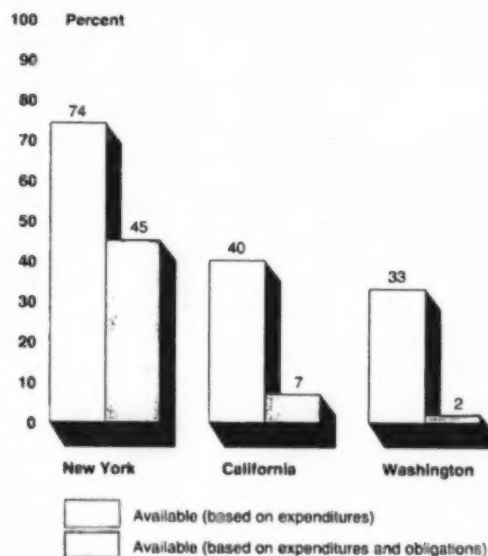
In addition to reporting expenditures each quarter, states also report obligations—funds committed through contracts for goods and services for which a payment has not yet been made. However, not all of the 9 states we contacted reported obligations in the same way and differences in reporting resulted in data inconsistencies. Labor's guidance requires that states report obligations but does not specify whether obligations made at the local level—the point at which services are delivered—should be included. States interpret Labor's definition of obligations in several ways. Some states we contacted include as obligations the amount of the WIA grant they allocate to their local areas. By contrast, other states included funds that their local areas have committed in contracts for individual training accounts, staff salaries, and one-stop operating costs. Officials in these states told us they tracked locally committed funds because they more accurately reflect total spending activity. Of the 9 states we contacted, all collect information on local obligations. However, 4 of them report these data to Labor while the other 5 do not. These differences result in data that are not comparable across states.

**Lacking Consistent
Information on
Obligations, Labor
Overstates Available Funds
by Considering Only
Expenditures**

Labor's data on obligations do not consistently reflect local commitments; therefore, Labor relies on expenditure data to estimate available funds. In doing so, Labor overestimates the amount states have available to spend. For 3 of the 4 states that report local obligations, the amount of funds the state has available is much smaller when local obligations are taken into account along with expenditures. For example, for New York, available funds are cut almost by a third, and in California and Washington, available funds essentially disappear—decreasing from 40 percent to 7 percent, and 33 percent to 2 percent, respectively (see fig. 8). For

Vermont, the fourth state that collects and reports local obligations, obligations and expenditures were very similar, with about 8 percent of program year 2001 funds available.

Figure 8: Percentage of Program Year 2001 Allocation Available for Three Selected States



Source: GAO's analysis of Labor's financial data files for program year 2001.

Labor Monitors Spending, Provides Guidance, but Concerns Remain

A key role for Labor under WIA is to monitor state spending; it does so by comparing the expenditure information it receives from states with benchmarks Labor has developed. However, these benchmarks are often not communicated to the states. Labor uses the benchmarks to formulate budget requests and identify which states need monitoring and additional guidance. While Labor has provided additional financial reporting guidance and technical assistance, some state officials told us that they remain concerned about WIA spending and financial reporting and would like further help in developing strategies to effectively manage expenditures.

**Labor Monitors State's
WIA Spending Using
Benchmarks That Are Not
Always Communicated to
States**

Labor has established several national expenditure rates used as benchmarks against which to judge each state's spending rate. In program year 2000, for example, Labor set its benchmark at 25 percent of states' allocations during the first half of the year and 50 percent of their allocation three-quarters of the way through the year, based on its comparison of state expenditure reports. However, Labor's data show that most states—40 in all—did not meet the 50-percent benchmark stipulated for March 31, 2001. The remaining 12 states either met or exceeded this benchmark. In program year 2001, Labor assumed higher expenditures and projected an expenditure rate of 69 percent, which 26 states met or exceeded. Labor uses its projection to formulate the following year's budget request and bases it on total WIA funds available, which include the current year allocation and prior years' unexpended balances carried into the current year. (See app. III for states that met, exceeded, or were below benchmarks.)

Labor intended the program year 2000 benchmarks to serve as internal guidelines for targeting oversight efforts and has not always communicated them to states. Some state officials told us that lacking information on benchmarks has created frustration in managing their WIA spending because Labor notified these states that they were underspending their funds but did not specify the goal they had to achieve. Moreover, state and local officials said that it was unclear how the benchmarks take into account states' 3-year and localities' 2-year spending windows.

Labor established protocols in April 2001 to address WIA spending issues, requiring its appropriate regional offices to contact states whose expenditures appeared low. States whose expenditure rates fell below program year 2000 benchmarks were subject to immediate regional office examination. In addition to reviewing state spending patterns and determining the magnitude of underspending, regional offices were required to work with state staff to determine specific reasons for underspending, help develop corrective action plans, and submit weekly and monthly progress reports on implementation status to Labor headquarters.

Labor's regional offices have taken various approaches to monitoring states' WIA spending. As of July 2002, six of seven regional offices had sent monitoring letters to 26 states. Three states received letters because

spending was below the benchmarks,³ and these states were required to submit a corrective action plan. The other 23 states⁴ received letters as part of ongoing regional oversight, regardless of spending level. The seventh region elected to hold meetings and used other modes of direct communication with state officials instead of sending them formal letters. In addition to sending letters, four regions conducted monitoring site visits to states with low expenditure rates.

Labor Has Provided Additional Guidance and Assistance, but States Remain Confused about How to Report and Manage Spending

At the national level, Labor has issued guidance⁵ containing financial reporting instructions and definitions as well as a technical assistance guide on financial management.⁶ At the regional level, guidance and assistance efforts vary. For example, the Dallas Regional Office issued a memorandum suggesting steps states and local areas could take to address low enrollment and expenditures. Suggestions included modifying policies and procedures to quickly move one-stop clients who are on waiting lists to intensive or training activities and reporting Individual Training Account expenditures on an accrual basis regardless of whether the provider has submitted a bill. The New York Regional Office has developed a quarterly WIA expenditure tracking system and uses the information to conduct extensive briefings, correspondence, and discussions with its states in addition to providing guidance and technical assistance through training sessions.

Despite Labor's guidance and assistance efforts, some state and local officials cited several concerns about financial reporting. As we noted, states are reporting obligations inconsistently because Labor's definition of obligations is ambiguous. A recent report by Labor's Inspector General confirms that the definition is unclear and that Labor provided conflicting

³New York, Ohio, and Puerto Rico received monitoring letters because their program year 2000 expenditure rate was below the 25-percent benchmark that states had to meet by December 31, 2000.

⁴Alaska, Arizona, California, Connecticut, Hawaii, Idaho, Illinois, Indiana, Iowa, Kansas, Maine, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Hampshire, Oregon, Rhode Island, Vermont, Washington, and Wisconsin.

⁵Department of Labor, *Training and Employment Guidance Letter 16-99* (Washington, D.C.: 2000).

⁶Department of Labor, *One-Stop Comprehensive Financial Management Technical Assistance Guide* (Washington, D.C.: 2002.)

instructions to Ohio State officials on how to report obligations.⁷ Obligations are especially important because WIA requires that recapture decisions be based on amounts expended and obligated. According to state and local officials, three aspects of Labor's definition were problematic:

- First, Labor's definition of obligations does not specify whether local obligations to service providers should be included when states report to Labor or whether obligation data should simply reflect state obligations to local boards. For example, Florida counts as obligations any funds it passes through to local areas, whereas Washington includes obligations made at the local level.
- Second, even when the issue of reporting local obligations is clarified, what constitutes an obligation is open to interpretation. Officials at a local area in Ohio, for example, said that some local areas report an obligation only when there is a legally binding contract while others include amounts that have been reserved in anticipation of a contract.
- Third, confusion exists on the timeframe used to define obligations. Colorado state officials noted that some local areas report commitments as obligations if the funds are committed no more than 3 months into the future, others consider obligations only within the current program year, while still others count obligations as any future commitments regardless of the length of the contract period. Ohio officials questioned whether obligations should be recorded for only 1 year given that WIA gives local areas 2 years in which to spend their funds. In addition, officials in several local areas told us that Individual Training Account vouchers,⁸ posed a particular financial reporting challenge. It is unclear what portion of the training voucher is to be reported as an obligation given that the vouchers may cover a 2 to 3 year period.

Several state and local officials also cited the need for more information on strategies to better manage WIA spending. They told us that they would

⁷Department of Labor, *State of Ohio, Evaluation of Grant Obligations, Expenditures and Payments, Workforce Investment Act Grants and Job Training Partnership Act Transition Funds, Independent Accountants' Report on Applying Agreed-Upon Procedures, Grants and Transition Funds Awarded to the State of Ohio, July 1, 2000 Through December 31, 2001* (Washington, D.C.: 2002).

⁸Under WIA, Individual Training Accounts are established for eligible adults and dislocated workers to finance training services. Participants then use these vouchers to purchase training services from eligible providers of their choice.

benefit from sharing these strategies. While they acknowledged that Labor had provided financial reporting guidance, they desired a mechanism or forum for exchanging ideas, questions, and answers on spending issues. Officials at both the state and local level expressed a need for greater clarity in the definition of obligations, more specific and frequent guidance and technical assistance, and systematic sharing of promising practices to effectively manage WIA spending. Labor officials acknowledged that states are misinterpreting the financial reporting guidance and that the guidance could be further clarified.

To ensure uniform reporting procedures, a few states have developed their own policy guidance. For example, Colorado recently issued a directive on reporting obligations and accrued expenditures.⁹ The directive allows the costs of Individual Training Accounts to be reported as obligations when an order is placed or a contract is awarded for the procurement of goods and services. Furthermore, voucher agreements may be obligated up to 12 months.

A Variety of Factors Affects States' WIA Expenditure Rates

State and local officials told us that a variety of factors affects WIA expenditure rates. Delays in reporting expenditures result from lengthy spending approval processes and cumbersome contract procurement procedures as well as from a lack of timely provider billing. In addition, fluctuating funding levels affect their willingness to make long-term commitments and inhibit their ability to do long-range planning. Some states and local officials we spoke with said that they use strategies to mitigate these factors and better manage spending.

Lengthy Expenditure Processes Delay Spending

Officials at some states and localities told us that lengthy processes to obtain approval to spend the funds, WIA's emphasis on contracting for services, and lags in service provider billing all contributed to delays in spending WIA funds. After the state allocates the WIA grant to the local areas, the local areas may go through time-consuming internal procedures to obtain approval to spend the funds before they can disburse or obligate the money:

⁹State of Colorado Department of Labor and Employment, Office of Employment and Training Programs, *Colorado One-Stop System Policy Guidance Letter # 02-20-WIA* (Denver, Colo.: 2002.)

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- Officials in Cleveland told us that the city council has to approve the grant allocation from the state for each funding stream. This process includes approval of the grant's receipt as well as its expenditure, taking anywhere from several weeks to 8 months.
 - Local area officials in Colorado told us that county commissioners have to approve the release of funds from the state to the local area. This process takes anywhere from 2 weeks to 3 months, depending on the number of counties comprising a local area.

WIA's emphasis on contracting for services may also delay spending for states and localities, especially for those whose procurement process is lengthy:

- New York officials told us that contracts must go through a competitive bidding process and many layers of review, including the state's department of labor, comptroller, and attorney general, resulting in a procurement process lasting an average of 3 months.
- Illinois state officials attributed slow statewide expenditure rates to the state's lengthy procurement process, in which it took 8 months to procure a vendor to redesign the state's case management system.

Performance-based contracts also result in financial reporting delays where contractors get paid as they meet agreed-upon performance goals. Officials in 4 of the states we contacted told us that they rely on these types of contracts in at least some of their local areas. As a result, they record expenditures later in the program year than those entities that reimburse contractors whenever costs are incurred:

- According to Florida State officials, all contracts are performance based, by state law. Contractors are paid at certain intervals during the contract period depending on when they have met stipulated outcomes such as job retention. However, an outcome such as job retention may not be known until as long as 6 months after the contract terminates.
- Suffolk County in New York pays its contractors at intervals. For example, 50 percent of the contract is paid when 50 percent of the training has been completed.

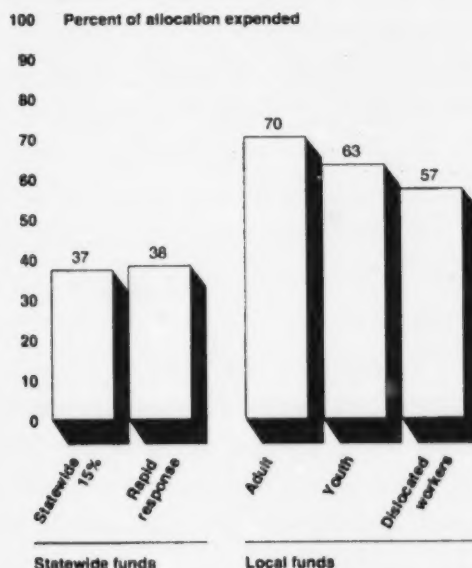
Some key service providers often bill late, sometimes months after providing services. Both state and local officials told us that public institutions—particularly community and technical colleges—are primary providers of training, often delivering such services through Individual

Training Accounts. The 4 to 6 month lag in school billing in Miami, for example, not only causes delays in reporting expenditures, but public schools—not accustomed to billing monthly—may also have little financial incentive to expedite billing because they do not rely on WIA funds as a major source of their tuition revenue.

**Statewide Funds Are Spent
at a Slower Rate**

Slower spending of statewide funds compared to local funds also affects expenditure rates. Labor's data for program year 2001 show that states are spending their statewide funds at less than two-thirds the rate of local funds. For example, the governor's statewide 15 percent set-aside was 37 percent expended compared to 70 percent expended for local adult programs (see fig. 9). The difference in expenditure rates is due, in part, to WIA's requirement that some of the statewide funds be used for end-of-year incentive grants to local areas for exemplary performance on the local performance measures. In addition, Washington, for example, uses statewide funds for long-term projects and for activities such as program evaluations. Likewise, rapid response funds are held at the state level to enable response to mass layoffs or plant closures. Florida State officials told us that, by state law, the state board must retain 30 percent of its rapid response funds until the latter part of the program year.

Figure 9: WIA Expenditure Rates for First Year That Program Year 2001 Funds Were Available, by Funding Category



Source: GAO's analysis of Labor's financial data files for program year 2001.

Although these factors affect when expenditures are incurred and reported, other factors may influence states' decision on whether to spend their WIA funds.

Three Factors Affect States' Overall Level of Spending

Three key factors affect the extent to which states spend their WIA funds. First, fluctuations in funding levels due to funding formulas or budget decisions affect states' and localities' willingness to make long-term commitments and their ability to plan comprehensive workforce systems. Second, WIA's emphasis on referrals to other one-stop partners' programs may result in non-WIA funds being spent first. Third, implementation issues, particularly during the early stages of the program, may have resulted in lower expenditures while one-stop centers were still being established.

Funding Fluctuations

Year-to-year fluctuations in funding, whether due to the allocation formulas or appropriation decisions, make localities reluctant to commit funds for long-term training and education, affecting overall WIA spending.

How much states and localities receive can vary dramatically from year to year as a result of WIA's funding formula allocations for the adult, youth, and dislocated worker programs. The dislocated worker funding formula, which distributes a third of its funds based upon the amount of "excess unemployment" (unemployment exceeding 4.5 percent), is especially volatile.¹⁰ In addition, funds appropriated for WIA programs vary according to annual budget decisions. For program year 2001, for example, \$177.5 million was rescinded from the dislocated worker program. State and local area officials told us that they were uncertain whether the rescission would be restored and that the uncertainty contributed to their sense of funding instability. Local area funding levels can also fluctuate when they receive an infusion of unanticipated, unspent statewide funds, as was the case in Seattle and Tacoma. Washington's governor held back some rapid response funds in anticipation of aluminum plant closings and mass layoffs stemming from the energy shortage along the West Coast. However, when plant closings did not materialize, the state no longer needed the funds for rapid response activities and allocated them to these two cities midway through the program year, with the expectation that the funds would be spent by the end of the program year.

Year-to-year fluctuations in funding also hinder states' and localities' ability to plan comprehensive workforce investment systems. For example, in New York, funds for dislocated workers decreased by about 40 percent from program year 1999 to program year 2000, a fluctuation that state officials said would inhibit its local areas from committing funds beyond the current program year because future funding levels are uncertain. Similarly, state officials in Ohio told us that their local areas have adopted a cautious approach to current year spending and plan to carry over unspent funds due to funding uncertainty.

Referrals to Other Partners

WIA's emphasis on referrals to other sources of assistance makes WIA a funding source of last resort. As part of the core services under WIA, adults and dislocated workers can get help in establishing financial aid eligibility for training and education programs that are available in the community but are not funded under WIA. In addition, to qualify for training services under the adult and dislocated worker programs, individuals must be unable to obtain other grant assistance, such as Pell

¹⁰For more information on the dislocated worker funding formula, see our prior report, *Workforce Investment Act: Better Guidance and Revised Funding Formula Would Enhance Dislocated Worker Program*, GAO-02-274 (Washington, D.C.: Feb. 11, 2002).

Grants, or must require assistance beyond that provided by other grant aid programs. Sometimes, states make it a priority for local areas to spend other grant funds. For example, in Ohio, WIA spending was delayed because of the large amount of funds to be spent from the Temporary Assistance for Needy Families (TANF) grant.¹¹

Start-up Issues

Start-up issues may have also affected expenditures in the initial stages of WIA's implementation, especially during program years 1999 and 2000. Expenditures during this period may have been lower—many one-stop centers were not fully up and running while states and localities were developing or substantially retooling existing employment and training systems. For example, while Texas got a head start in establishing one-stops under WIA because it was an early implementer, state workforce officials struggled with other issues such as implementing individual training accounts and developing data collection systems for WIA's performance measures. In addition, some states and local areas initially took a "work-first" approach, emphasizing job placement services that were less expensive compared to long-term training and education services, especially given the positive economic and employment conditions at the time of WIA's enactment. Workforce officials told us that most of these issues have been resolved since the transition from JTPA.

Some States and Localities Have Mitigated Factors Affecting Spending Rates

To manage spending more effectively, some states and local areas have developed strategies to mitigate factors affecting spending levels or delays in reporting expenditures.

¹¹Welfare reform legislation created the TANF block grant in 1996, providing states with flexibility to focus on helping needy adults with children secure and maintain employment. TANF is administered and funded at the federal level through the Department of Health and Human Services. In prior reports we have said that states have been under considerable scrutiny for not spending their TANF funds more quickly. For more information, see, for example, U.S. General Accounting Office, *Welfare Reform: Challenges in Maintaining a Federal-State Fiscal Partnership*, GAO-01-828 (Washington, D.C.: Aug. 10, 2001).

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- Most states we contacted have a process in place to recapture funds from local areas that have not met their target spending rates and reallocate them to those areas that have done so, although only a few had used it or planned to use it for program year 2000 funds, in part because they were transitioning from JTPA. Florida, however, actively monitors expenditures and requires its local areas to meet a minimum 25 percent expenditure rate after 6 months, 50 percent after 12 months, 75 percent after 18 months, and 100 percent at the end of 24 months when local grants expire.
 - To address lengthy contracting processes, Chicago coordinates the timing of the procurement process with the availability of funds.
 - Florida has addressed delayed school billing by mandating expedited billing in the contract and Vermont pays tuition expenses at the time of participant registration rather than at course completion.
 - To facilitate the spending of statewide funds, Texas' state WIA plan identifies statewide initiatives at the beginning of the program year so that statewide funds can be allocated more expeditiously.

Conclusions

In past reports, we have found that states and local areas have stepped up to the challenge of fundamentally reconfiguring their workforce investment systems to serve the nation's jobseekers and employers.¹² Though spending was initially sluggish as state and local boards ramped up their workforce systems, the pace of spending picked up as the second full year of implementation under WIA came to a close. Our analysis of Labor's data shows that states are rapidly spending their funds—in fact, nationwide, states have spent 90 percent within 2 years, much of it often within the first year the funds were available. This pace of spending has occurred even though the law allows states 3 years to spend the funds.

But, expenditures by themselves do not provide a complete picture of spending activity. Obligations—funds that have been committed on behalf of WIA customers—must also be considered to accurately gauge how

¹²Our prior work on WIA concluded that states had made significant progress in developing new processes and designing new workforce systems given the scope of WIA's reforms. See, for example, U.S. General Accounting Office, *Workforce Investment Act: Youth Provisions Promote New Service Strategies, but Additional Guidance Would Enhance Program Development*, GAO-02-413 (Washington, D.C.: Apr. 5, 2002) and *Workforce Investment Act: Improvements Needed in Performance Measures to Provide a More Accurate Picture of WIA's Effectiveness*, GAO-02-275 (Washington, D.C.: Feb. 1, 2002).

much is truly available for spending. Moreover, the law requires Labor to use obligations in its recapture decision. Taken together, expenditures and obligations are important tools for effective grant management and prudent oversight of the program. Labor has begun taking an active role in monitoring program spending. But, state officials have told us that it is not enough; they need more clear and consistent guidance from Labor on how to manage and report their WIA spending and how to collect and report obligations, particularly those commitments made at the local level. Failing this, states will continue struggling to understand what information is needed, and Labor's data will continue to be incomplete and inaccurate. Perhaps most problematic, though, is that, lacking consistent, reliable data on obligations, Labor uses only expenditure data to gauge budgetary need. In so doing, Labor does not take into account longer-term commitments made to customers and service providers and, as a result, overestimates available funds. Budget decisions based on underestimated spending levels contribute to funding instability in the system and impair the ability of state and local officials to plan workforce systems that provide the nation's jobseekers and employers with critically needed services.

To build their workforce investment systems, states must carefully plan and use their limited resources in a way that best meets the growing demand for employment and training services, in the current uncertain economic environment. State officials told us that they seek more guidance and assistance in managing their WIA funds wisely and some states have implemented strategies to do so. But states will not be able to effectively manage their spending and sustain service levels without knowing what spending goals they must achieve and without a forum for sharing promising practices to help them succeed.

Recommendations for Executive Action

To enhance Labor's ability to manage its WIA grants and to improve the accuracy and consistency of financial reporting, we are making several recommendations to Labor.

Through collaboration with states, Labor should clarify the definition of unliquidated obligations to

- include funds committed at the point of service delivery in addition to those funds obligated at the state level for statewide WIA activities and not funds that states merely allocate to their local areas,
- specify what constitutes an obligation to address state and local area concerns regarding contracts, and

-
- specify the timeframe for recording an obligation particularly when it covers time periods that are longer than a program year.

To provide a more complete picture of spending activity and to obtain accurate information for its recapture decision, Labor should

- require states to collect and report information on obligations at the point of service delivery and
- include such obligations in determining states' available funds.

To help states and local areas manage their spending more judiciously, Labor should

- proactively provide states and local areas with guidance and technical assistance focused on reporting financial information,
- communicate spending benchmarks that states should meet, and
- systematically share promising practices and effective spending management strategies.

Agency Comments and Our Evaluation

We provided a draft of this report to officials at Labor for their review and comment. Labor's comments are in appendix IV. In its comments, Labor noted that the report contained a number of findings that will be very helpful during WIA's reauthorization. In general, Labor agreed with our findings and recommendations related to providing clearer definitions, guidance, and technical assistance to states to help them manage their WIA spending. However, Labor disagreed with our findings and recommendations related to the importance of considering obligations in addition to expenditures as it assesses WIA's financial position.

In response to our finding that states are spending their WIA funds faster than the authorized 3-year period, Labor said that states were exceeding the law's minimum spending requirements, but that it must look beyond minimum expectations when investing limited resources. We agree with this point. In fact we found an expenditure rate of 90 percent of program year 2000 funds within 2 years, indicating that states are going well beyond minimum expectations. Labor also acknowledged that its spending estimate included all funds available at the start of the program year, without which an analysis of expenditure rates would be misleading. We do not contest Labor's methodology, but think it is important to note that most of the funds available to states were allocated within the past year, and states have not had long to spend the funds. We continue to assert that

a better way to look at expenditure rates is not in the aggregate, but on a year-by-year basis.

Regarding our conclusion that Labor's data do not accurately reflect state spending because they exclude obligations, Labor commented that, while it collects information on obligations due to statutory requirements, obligations are unimportant in formulating the budget because they represent future commitments to provide services, not actual service delivery. We continue to believe that obligations play a significant role in light of WIA's greater emphasis on contracting for services and are recommending that Labor establish a clearer definition of obligations that states can follow so that they can report more meaningful data to Labor.

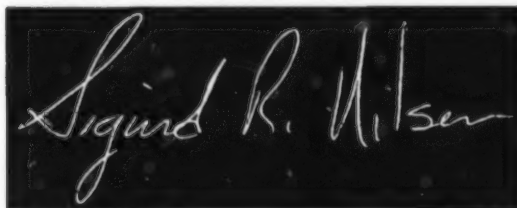
While agreeing with our recommendation to clarify its definition of obligations, Labor took exception to the recommendation to collect and report obligations made at the point of service delivery. Labor was concerned that a new reporting requirement would be extremely burdensome and costly to implement nationwide, in part because it did not believe that service providers always collected this information. We believe that assessing both obligations and expenditures is an important tool for sound financial management at any level—state, local area, or service provider—and a number of states are already collecting local obligations. We are pleased to note that Labor said it plans to work with states on this recommendation during WIA reauthorization.

Labor also concurred with our recommendations to provide additional financial reporting guidance and technical assistance as well as to share promising practices for effectively managing spending. Labor agreed that it would be a priority for the coming year to ensure that all states are aware of requirements for the accounting of WIA funds.

Regarding our recommendation that Labor communicate spending benchmarks that states should meet, Labor disagreed with our characterization of the expenditure rates as benchmarks, saying instead that they were projections of spending used to formulate a budget. Labor also commented that expenditure rates used to monitor spending were based on actual financial reports submitted by states, not on Labor's expectations. Labor has used these expenditure rates as benchmarks to identify states that were underspending their WIA funds and to prioritize oversight efforts. We agree that using benchmarks to prioritize monitoring helps manage limited resources; however, if spending targets are established, they should be disclosed.

Finally, Labor was concerned about the unprecedented level of unspent balances carried over from prior years, citing these excess funds as justification for the dislocated worker rescission and for seeking additional budget reductions. While unspent balances under WIA may be larger than those experienced under JTPA, it may not be reasonable to expect comparable spending levels between the two programs. WIA's requirements represent a significant shift from prior workforce programs, including its emphasis on contracting for services, streamlining services through one-stop centers, and establishing training vouchers on behalf of customers. In addition, we contend that these unspent balances may have already been committed and may be unavailable for spending. We agree that the nation will face many challenges in financing its priorities in the coming years. However, in order to make funding choices, decisionmakers will need comprehensive information that considers expenditures, obligations, and how long the funds have been available for states to spend. We reiterate that additional clarification and guidance from Labor as well as effective management strategies would help states judiciously manage their WIA funds.

We will send copies of this report to the Secretary of Labor, relevant congressional committees, other interested parties, and will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>. Please contact me at (202) 512-7215 if you or your staff have any questions about this report. Other major contributors to this report are listed in appendix V.



Sigurd R. Nilsen
Director, Education, Workforce,
and Income Security Issues

Appendix I: Sample Financial Status Report Form

Workforce Investment Act Local Adult Program Activities		U.S. Department of Labor Employment and Training Administration		OMB Approval No. 1205-0408		Page of	
1. Federal Agency and Organization Name to Which Report is Submitted		2. Federal Grant or Other Identifying Number Assigned by Federal Agency		Expires: 02/29/04		Page	
3. Recipient (Name and complete address, including ZIP code)							
4. Employer Identification Number		5. Recipient Account Number or Identifying Number		6. Final Report ☐ Yes ☐ No		7. Basis ☐ Cash ☐ Accrual	
8. Funding Year		9. Period Covered by the Report From: (Month, Day, Year)		To: (Month, Day, Year)			
10. Transactions:				Cumulative			
a. Total Federal outlays							
b. Refunds, rebates, etc.							
c. Net Federal outlays (Line a minus b)							
d. Recipient outlays for allowable program activities							
e. Net Federal outlays							
f. Federal unliquidated obligations							
g. Total Federal obligations (Line e plus f)							
h. Total Federal funds authorized for this funding period							
i. Transfers from dislocated worker program activities							
j. Transfers to dislocated worker program activities							
k. Adjusted total Federal funds available							
l. Unobligated balance of Federal funds (Line k minus g)							
Program income consisting of:							
m. Disbursed program income using the addition method							
n. Undisbursed program income							
o. Total program income realized (Line m plus n)							
11. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation.							
12. Certification: I certify to the best of my knowledge and belief that this report is correct and complete and that all outlays and unliquidated obligations are for the purposes set forth in the award documents.							
Typed or Printed Name and Title				Telephone (Area code, number and extension)			
Signature of Authorized Certifying Official				Date Report Submitted			
Persons are not required to respond to this collection of information unless it displays a currently valid OMB control number. Respondents' obligation to reply to these reporting requirements is mandatory (WIA, 29 CFR 652 et al.). Public reporting burden for this collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to the U.S. Department of Labor, Office of Water-Growth, Room 71118, Washington, D.C. 20210 (Facilities Reduction Project) (1205-0408). ETA 9016-E (May 2000)							

Source: Department of Labor.

Appendix II: State Expenditure Rates, by Year, for Funds Allocated in Program Years 2000 and 2001

State	Program year 2000			Program year 2001		
	Allocation	First year expenditures	Second year expenditures	Cumulative expenditures	Allocation	First year expenditures
Nationwide Total	\$3,194,853,459	55%	35%	90%	\$3,209,860,440	56%
Alabama	\$40,004,934	65%	31%	96%	\$50,899,142	43%
Alaska	\$13,025,382	50%	40%	89%	\$18,770,901	31%
Arizona	\$40,316,492	68%	25%	93%	\$45,780,561	63%
Arkansas	\$32,873,554	42%	45%	87%	\$26,623,830	46%
California	\$629,891,146	53%	39%	92%	\$588,310,299	60%
Colorado	\$21,927,432	53%	43%	96%	\$20,505,485	50%
Connecticut	\$23,667,536	66%	29%	97%	\$23,219,420	80%
Delaware	\$6,490,578	73%	27%	100%	\$7,914,898	76%
District of Columbia	\$19,115,547	59%	36%	95%	\$16,441,608	62%
Florida	\$119,379,909	67%	30%	96%	\$115,400,934	71%
Georgia	\$61,986,095	39%	49%	88%	\$62,065,406	35%
Hawaii	\$25,017,294	36%	53%	90%	\$16,824,216	50%
Idaho	\$14,001,554	59%	41%	100%	\$11,649,917	73%
Illinois	\$117,156,561	73%	21%	94%	\$133,535,368	77%
Indiana	\$32,074,354	72%	22%	94%	\$34,472,916	73%
Iowa	\$11,453,324	53%	42%	94%	\$12,050,045	54%
Kansas	\$12,647,819	53%	45%	98%	\$14,070,055	48%
Kentucky	\$42,450,709	29%	63%	91%	\$42,461,995	46%
Louisiana	\$66,600,837	37%	53%	90%	\$64,237,072	38%
Maine	\$11,241,748	76%	24%	100%	\$10,172,785	78%
Maryland	\$44,146,044	58%	40%	98%	\$42,362,811	56%
Massachusetts	\$39,029,852	80%	18%	99%	\$41,910,884	77%
Michigan	\$78,378,398	80%	20%	100%	\$75,484,574	83%
Minnesota	\$23,854,258	76%	19%	94%	\$27,896,710	86%
Mississippi	\$37,295,042	41%	52%	92%	\$61,839,776	35%
Missouri	\$43,068,225	59%	39%	97%	\$38,428,485	70%
Montana	\$14,759,397	77%	23%	100%	\$15,106,415	76%
Nebraska	\$7,214,382	45%	45%	90%	\$8,854,537	43%
Nevada	\$12,288,634	60%	36%	96%	\$13,454,458	61%
New Hampshire	\$7,073,563	69%	20%	89%	\$7,564,315	64%
New Jersey	\$77,798,291	52%	44%	96%	\$78,201,993	56%
New Mexico	\$37,825,812	52%	46%	98%	\$36,512,180	19%
New York	\$304,953,605	42%	37%	79%	\$256,067,646	26%
North Carolina	\$45,496,846	46%	49%	95%	\$49,711,078	52%
North Dakota	\$6,248,030	71%	29%	100%	\$6,989,492	73%
Ohio	\$112,830,662	36%	52%	88%	\$127,098,298	45%
Oklahoma	\$28,674,596	51%	43%	94%	\$25,554,550	58%
Oregon	\$59,267,052	70%	27%	97%	\$55,829,680	74%
Pennsylvania	\$106,721,228	54%	38%	92%	\$104,011,102	58%

Appendix II: State Expenditure Rates, by
Year, for Funds Allocated in Program Years
2000 and 2001

State	Allocation	Program year 2000			Program year 2001	
		First year expenditures	Second year expenditures	Cumulative expenditures	Allocation	First year expenditures
Puerto Rico	\$215,497,257	50%	21%	71%	\$281,614,631	53%
Rhode Island	\$7,894,331	60%	40%	100%	\$8,552,097	58%
South Carolina	\$33,482,113	41%	48%	89%	\$38,681,909	45%
South Dakota	\$6,303,992	63%	31%	94%	\$7,037,319	59%
Tennessee	\$50,778,981	48%	47%	94%	\$47,600,914	49%
Texas	\$245,828,151	64%	27%	90%	\$246,407,786	73%
Utah	\$10,398,799	91%	9%	100%	\$10,171,265	58%
Vermont	\$6,046,589	92%	8%	100%	\$7,021,752	92%
Virginia	\$38,738,232	54%	40%	95%	\$40,448,149	43%
Washington	\$70,046,805	64%	31%	96%	\$70,184,034	67%
West Virginia	\$44,218,809	52%	41%	93%	\$45,451,308	35%
Wisconsin	\$30,506,817	71%	24%	95%	\$31,253,858	66%
Wyoming	\$6,747,843	78%	20%	98%	\$7,349,581	53%

Note: Cumulative expenditure rates for program year 2000 do not add to 100 percent due to rounding.

Source: GAO's analysis of Labor's financial data files for program years 2000 and 2001.

Appendix III: Comparison of States' Expenditure Rates with Labor's Benchmarks and Projections

State	Program year 2000 benchmark: 50 percent as of March 31, 2001		Program year 2001 projection: 69 percent as of June 30, 2002	
	Met or exceeded	Below	Met or exceeded	Below
Total number of states	12	40	26	26
Alabama		X		X
Alaska		X		X
Arizona		X	X	X
Arkansas		X		X
California		X	X	X
Colorado		X		X
Connecticut		X	X	
Delaware	X		X	
District of Columbia	X		X	X
Florida	X		X	
Georgia		X	X	X
Hawaii		X		X
Idaho		X	X	
Illinois		X	X	
Indiana	X		X	
Iowa	X			X
Kansas		X		X
Kentucky		X		X
Louisiana		X		X
Maine	X		X	
Maryland		X	X	
Massachusetts	X		X	
Michigan		X	X	
Minnesota	X		X	
Mississippi		X		X
Missouri		X	X	
Montana	X		X	
Nebraska		X		X
Nevada		X	X	
New Hampshire		X		X
New Jersey		X		X
New Mexico		X		X
New York		X		X
North Carolina		X		X
North Dakota		X	X	
Ohio		X		X
Oklahoma		X	X	
Oregon		X	X	
Pennsylvania		X	X	
Puerto Rico		X		X

Appendix III: Comparison of States' Expenditure Rates with Labor's Benchmarks and Projections

State	Program year 2000 benchmark: 50 percent as of March 31, 2001		Program year 2001 projection: 69 percent as of June 30, 2002	
	Met or exceeded	Below	Met or exceeded	Below
Rhode Island		X	X	
South Carolina		X		X
South Dakota		X		X
Tennessee		X		X
Texas		X	X	
Utah	X			X
Vermont	X		X	
Virginia		X		X
Washington		X	X	
West Virginia		X		X
Wisconsin		X	X	
Wyoming	X			X

Note: The benchmark for program year 2000 is based on percent of allocation spent. The projection for program year 2001 is based on the current year allocation and unexpended funds carried in from prior years.

Source: GAO's analysis of Labor's financial data files for program years 2000 and 2001.

Appendix IV: Comments from the Department of Labor

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210



NOV 12 2002

Mr. Sigurd R. Nilsen
Director
Education, Workforce, and Income Security Issues
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Nilsen:

We have reviewed the draft report entitled, *"Workforce Investment Act: States' Spending Is on Track, but Better Guidance Would Improve Financial Reporting."* A number of findings, including the identification of factors that have contributed to low spending rates, will be very helpful as we proceed with the reauthorization of the Workforce Investment Act. However, we must respectfully disagree with a number of conclusions and recommendations presented.

This report summary begins with GAO statements that "(s)ates are spending their WIA funds, often faster than the authorized 3-year period." It goes on to indicate that "... Labor's estimate suggests a slower pace of spending because it is based on available funds, including those most recently distributed." The Department cannot dispute that states are exceeding the minimum requirements for spending contained in the law. However, as responsible public officials, we believe that we must look beyond minimum expectations when making investment decisions, given the many competing priorities our nation faces. We also acknowledge that in spending projections and reports on spending shared with the Congress and others, funds that were appropriated and allocated at the start of the year were included. We believe that any analysis that did not include all formula funds provided to a state would be misleading and irresponsible.

The report further concludes that our reports do not accurately portray spending in Workforce Investment Act (WIA) state programs because they only reflect information on program costs and not unliquidated obligations at the state and local levels. DOL does collect information on obligations because of statutory requirements but, admittedly, this is not an important consideration when formulating the Administration's budget. Our focus is on the levels of services to be provided and the actual program costs of providing them. We believe costs rather than measures of commitments and future spending provide the strengthened accountability and performance that is demanded. Unliquidated obligations represent legal commitments to spend funds in a specific way at some future time. It is a budgetary account that is used to control and not measure spending, and is intended to assure that funds are available for a subsequent period's expenditure. For example, funds to pay a service provider for services that have not yet been



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provided would be included, whether the service is to be provided immediately or in a subsequent year. While of interest, this information rolled up on a national basis is of questionable value.

The Department has drafted reporting instructions recommended by the GAO and the Inspector General to clarify an easily correctable problem relating to reporting of local obligations and plans to send this guidance out soon. GAO also suggests that the DOL concerns regarding reliability of obligation data can be addressed by new requirements to report obligations made at the point of service delivery rather than the current reports that require that states report obligations reflected in the accounting records at the state or local level. This would address shortcomings expressed to GAO reviewers. However, we are concerned that such a requirement would be extremely burdensome and expensive to implement nationwide. Not-for-profit service providers do not routinely collect this information and neither do service providers that operate for profit. We will follow the suggestion made by GAO that we consult with the states on this recommendation when financial reporting requirements are next reconsidered, but we remain skeptical that the recommendation is doable. Consultation on revised reporting requirements will most likely occur as part of discussions about WIA reauthorization. We are reluctant to make interim changes that may be major.

DOL concurs with the recommendations to provide guidance and technical assistance focused on accounting and reporting requirements and to share information on effective practices. To date, our concerns have been to identify the causes of low spending and related low service levels and to address them. Additionally, GAO noted a number of accounting practices relating to the recording of obligations. A number of these are not in conformance with Generally Accepted Accounting Principles. Ensuring that all states are aware of requirements relating to the accounting of WIA funds will be a priority for the coming year.

GAO recommends that DOL communicate spending benchmarks with states. As indicated previously, the numbers referenced are national projections of spending used to formulate a budget. They were not target spending rates and were never intended as benchmarks. The report also identified states that received letters or other communications from our Regional Offices because of these spending rates. During the fiscal year we did identify spending rates below which further inquiry would be required. However, these rates were determined after comparing the actual reports submitted by all the states. They were not based on some projection or expectation. We continue to believe that this is an effective means to prioritize oversight needs. As for benchmarks for spending in the future, we believe that benchmarks should be included in reauthorization through the inclusion of a reallocation based on actual spending rather than obligations. The dislocated worker program authorized by the Job Training Partnership Act (JTPA) contained such a benchmark. We believe the more timely spending under JTPA can be attributed, in part, to this requirement. DOL is also reviewing state waiver requests from Governors that request authority to move from an obligations-based reallocation policy to one based on expenditures. A reallocation policy based on spending is necessary to ensure that those states and communities that are spending timely are not adversely impacted because others are not.

Appendix IV: Comments from the Department
of Labor

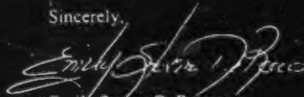
-3-

GAO is correct that carrying unspent balances from one year to another and obligating funds for training to be provided one or two years out are not violations of WIA law. In fact, GAO uses this information to conclude that spending is on track and, we presume, should not be a concern. DOL has never indicated that the funds would not be spent. What we did indicate is that the levels of unspent carryover from one year to another are unprecedented and of concern. This same conclusion was reached by the Congress which in July 2001 rescinded WIA dislocated worker funding because of concerns expressed in the Conference Report 107-148 "... that there is excess funding available in the program and the rescission is necessary to meet other needs in fiscal year 2001."

The Administration faced the same question in formulating its 2002 and 2003 requests and similarly concluded that because of the availability of these large balances, reductions in new budget authority could be taken without reductions nationwide in the numbers of individuals served. This is because of excess unspent funds that could easily absorb what is a relatively small one-time reduction.

We welcome further dialogue on these and other issues as we continue efforts to reauthorize WIA over the next year.

Sincerely,



Emily Stover DeRocco

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

Kim Reniero, Rebecca Woiwode, Bill Keller, and Elizabeth Kaufman made significant contributions to this report. In addition, Jessica Botsford and Richard Burkard provided legal support, Patrick DiBattista provided writing assistance.

Related GAO Products

Workforce Investment Act: Interim Report on Status of Spending and States' Available Funds GAO-02-1074. Washington, D.C.: September 5, 2002.

Workforce Investment Act: States and Localities Increasingly Coordinate Services for TANF Clients, but Better Information Needed on Effective Approaches GAO-02-696. Washington, D.C.: July 3, 2002.

Workforce Investment Act: Coordination of TANF Services through One-Stops Has Increased Despite Challenges GAO-02-739T. Washington, D.C.: May 16, 2002.

Workforce Investment Act: Youth Provisions Promote New Service Strategies, but Additional Guidance Would Enhance Program Development GAO-02-413. Washington, D.C.: April 5, 2002.

Workforce Investment Act: Coordination between TANF Programs and One-Stop Centers Is Increasing, but Challenges Remain GAO-02-500T. Washington, D.C.: March 12, 2002.

Workforce Investment Act: Better Guidance and Revised Funding Formula Would Enhance Dislocated Worker Program GAO-02-274. Washington, D.C.: February 11, 2002.

Workforce Investment Act: Improvements Needed in Performance Measures to Provide a More Accurate Picture of WIA's Effectiveness GAO-02-275. Washington, D.C.: February 1, 2002.

Workforce Investment Act: New Requirements Create Need for More Guidance GAO-02-94T. Washington, D.C.: October 4, 2001.

Workforce Investment Act: Better Guidance Needed to Address Concerns Over New Requirements GAO-02-72. Washington, D.C.: October 4, 2001.

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